

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00

USIE-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 AGR-05 TAR-01

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 IO-10

( ISO ) W

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O R 021240Z JUL 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 9187

INFO ALL EC CAPITALS 847

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 5997

PASS TO TREASURY FOR PELIKAN AND EXIMBANK FOR MINIKES

E. O. 11652: ADS "DECLASSIFIED ON JAN. 1, 1978"

TAGS: EFIN, EEC, ETRD

SUBJECT: EXPORT CREDIT GENTLEMEN'S AGREEMENT--EC TO DISCUSS  
COMPROMISE PROPOSAL

REFS: A. EC BRUSSELS 5554 B. EC BRUSSELS 4312 C. PARIS 15832(NOTAL)

1. SUMMARY: AFTER THE RECENT WASHINGTON DISCUSSIONS,  
THE EC IS NOW CONSIDERING A SUPPLEMENT TO THE FRG  
COMPROMISE FOR AN EXPORT CREDIT GENTLEMEN'S AGREEMENT.  
THIS SUPPLEMENT WOULD PUT LIMITS ON MATURITY PERIODS  
AND TIGHTEN CONTROL OVER MIXED CREDITS. THE EC  
TENTATIVELY PLANS TO DISCUSS THIS SUPPLEMENT ON  
JULY 9 BUT IS WAITING TO HEAR THE US REACTION.  
THE JAPANESE NOW APPEAR TO BE TAKING A MORE POSITIVE  
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POSITION. END SUMMARY.

2. JAMES LOWE, IRISH DEPARTMENT OF INDUSTRY AND COMMERCE, AND DEREK SMITH, UK ECGD, HAVE PROPOSED SUPPLEMENTS TO THE FRG COMPROMISE FOR A GENTLEMEN'S AGREEMENT (SEE REF B). THE LOWE AND SMITH PROPOSAL REFLECTS DISCUSSIONS THAT THEY HAD WITH WASHINGTON OFFICIALS ON JUNE 24-25. THE EC COUNCIL SECRETARIAT CIRCULATED THIS NEW PROPOSAL TO THE NINE ON JULY 1. THE EC EXPORT CREDIT WORKING GROUP TENTATIVELY PLANS TO MEET ON JULY 9 TO DISCUSS THE PROPOSAL BUT THE EC WOULD FIRST LIKE TO KNOW IF THE US ACCEPTS IT. WASHINGTON OFFICIALS REPORTEDLY SAID THAT THE US WOULD INFORM THE EC AND ITS VIEWS BY JULY 5.

3. THE TEXT OF THE PROPOSED SUPPLEMENTS ARE BEING SENT SEPTTEL. THE MAIN ELEMENT IS AN EXTENSION OF THE MAXIMUM MATURITY PERIODS FOR SPECIFIC INDUSTRIAL SECTORS TO 8.5 YEARS, 10 YEARS AND 12 YEARS FOR WEALTHY, INTERMEDIATE AND DEVELOPING COUNTRIES RESPECTIVELY. THE 8.5 AND 10-YEAR LIMITS FOR NON-DEVELOPING COUNTRIES COULD BE EXTENDED TO 12 YEARS ON AN EXCEPTIONAL BASIS. THESE EXTENSIONS WOULD BE SUBJECT TO 30 DAYS ADVANCE NOTICE AND TO PRIOR CONSULTATION, IF REQUIRED. A TENTATIVE LIST OF THE INDUSTRIAL SECTORS IS ANNEXED TO THE PROPOSAL. SHOULD A "TECHNOLOGICAL OR OTHER DEVELOPMENT" MAKE THE MATURITY LIMITS INAPPROPRIATE, THEY SHALL BE REVISED IN CONSULTATION BETWEEN THE PARTIES.

4. THE NEW PROPOSAL STATES THAT MIXED CREDITS WHICH HAVE A GRANT ELEMENT OF BETWEEN 15 AND 25 PERCENT SHALL BE SUBJECT TO PRIOR NOTIFICATION. IF A CREDIT HAS A GRANT ELEMENT OF LESS THAN 15 PERCENT, IT SHALL BE SUBJECT TO 30 DAYS ADVANCE NOTICE AND PRIOR NOTIFICATION IF NECESSARY.

5. IN A COVERING NOTE TO THEIR PROPOSAL, LOWE AND SMITH INDICATE THAT AS PART OF A FINAL COMPROMISE, THE US WOULD LIKE TO RAISE THE INTEREST RATE MINIMA IN

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THE FRG PROPOSAL. US OFFICIALS REPORTEDLY PROPOSED A MINIMUM OF 8 PERCENT, SUBJECT TO A REDUCTION TO 7.75 PERCENT FOR LARGE SCALE PROJECTS. MILITARY EXPORT CREDITS WHICH ARE BELOW THE ACCEPTED GRANT ELEMENT WOULD BE SUBJECT TO PRIOR NOTIFICATION. US OFFICIALS REPORTEDLY PROPOSED EXCLUDING AGRICULTURAL CREDITS FROM THE AGREEMENT, WHICH WOULD ELIMINATE A POSSIBLE PROBLEM WITH CCC CREDITS.

6. MRS. ARCHIBALD OF THE EC COMMISSION BELIEVES THE NEW PROPOSAL WILL LIKELY BE ACCEPTABLE TO ALL OF THE MEMBER STATES EXCEPT FRANCE. SHE HAS NOT YET DISCUSSED THE PROPOSAL WITH THE FRENCH. MRS. ARCHIBALD HAS SUGGESTED THAT SEVERAL KEY MEMBER STATE OFFICIALS CONTACT THE FRENCH AGAIN IN ORDER TO ENCOURAGE THEM TO ACCEPT IT. SHE BELIEVES THAT IF THE US ACCEPTS THE NEW PROPOSAL, THE FRENCH WILL FIND IT DIFFICULT TO OPPOSE IT. BECAUSE THE US WILL HAVE ESSENTIALLY AGREED TO A MATURITY LIMIT OF 12 YEARS. THE LACK OF SUCH A LIMIT WAS ONE OF FRANCE'S MAIN DIFFICULTIES WITH THE FRG COMPROMISE (SEE REF C).

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C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 5997

PASS TO TREASURY FOR PELIKAN AND EXIMBANK FOR MINIKES

7. MRS. ARCHIBALD SAID THE FRG, UK, COMMISSION AND

PERHAPS OTHERS WERE CONCERNED OVER THE PROVISION THAT WOULD ALLOW NON-DEVELOPING COUNTRIES TO RECEIVE CREDITS OF UP TO 12 YEARS ON AN EXCEPTIONAL BASIS. THIS EXCEPTION WOULD INCLUDE CENTRAL MARKET ECONOMIES, ESPECIALLY THE SOVIET UNION. SINCE THESE COUNTRIES HAVE FINANCIAL RESOURCES AND CAN MANIPULATE THEIR PRICING POLICIES, SHE QUESTIONS WHETHER NORMAL CASH FLOW REQUIREMENTS APPLY. MRS. ARCHIBALD BELIEVES A COMMON FRONT MUST BE MAINTAINED AGAINST SOVIET PRESSURE FOR SOFTER CREDIT TERMS. THE GENTLEMEN'S AGREEMENT AFFORDS THE OPPORTUNITY TO ADOPT SUCH A UNITED POSITION. SHE CONSEQUENTLY SUGGEST THAT THIS BE CHANGED TO AN EXCEPTION FOR PRIVATE BUYERS ONLY. MRS. ARCHIBALD ALSO  
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QUESTIONED THE NEED TO INCLUDE LOCOMOTIVES ON THE LIST OF EQUIPMENT THAT COULD RECEIVE AN EXTENSION OF THE MATURITY LIMITS.

8. THE EC HAS NOT YET NOTIFIED THE JAPANESE OF THESE NEW DEVELOPMENTS BUT IT PLANS TO DO SO SHORTLY. A JAPANESE MISSION OFFICER (MISHIMA) SAYS THE GOJ IS NOW TAKING A MORE POSITIVE APPROACH AND IS CURRENTLY STUDYING THE POSSIBILITY OF ACCEPTING THE FRG PROPOSAL, PERHAPS WITH SOME MODIFICATIONS. OTHER SOURCES TELL US THAT THE GOJ HAS INCURRED SUBSTANTIAL LOSSES IN ITS EXPORT CREDITS BECAUSE THE NORTH KOREANS RECENTLY DEFAULTED ON SEVERAL CREDITS. AS A RESULT, MITI HAS DOUBLED INSURANCE PREMIUMS ON EXPORT CREDITS. MITI, WHICH HAS REPORTEDLY OPPOSED THE GENTLEMEN'S AGREEMENT IN THE PAST, MAY NOW BE WILLING TO ACCEPT THE FRG PROPOSAL. THE GOJ MISSION, HOWEVER, HAS RECEIVED NO OFFICIAL INSTRUCTIONS IN THIS REGARD.  
GREENWALD

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## Message Attributes

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